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China–United States: Political Implications of Growing Economic Interdependence

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An Intelligence Assessment

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An Intelligence Assessment

This paper was prepared by China Division, in cooperation with the Systems Development Staff, Office of East Asian Analysis. It was coordinated with the National Intelligence Council. 25X1 25X1

Comments and queries are welcome and may be directed to the Chief, Development Issues Branch, OEA, 25X1

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China–United States: Political Implications of Growing Economic Interdependence

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Key Judgments

Information available as of 15 June 1983 was used in this report.

China's foreign policy has long been a complicated brew of *realpolitik,* xenophobic nationalism, and economic calculation. Security considerations have been the primary force shaping China's foreign policy, but there have been periods, such as the early 1950s, when the PRC's need for economic ties abroad have been an influential factor. The bitter experience with the Soviet Union, however, convinced the Chinese that they must avoid becoming economically reliant on any one country and accounts for Beijing's current efforts to spread its trade and investment relations over a broad range of Western countries. 25X1

We believe the importance of economic factors in China's foreign policy is likely to increase substantially over the coming decade as trade, foreign investment, and other commercial relationships with the outside world expand. Some of these arrangements would be vulnerable if Beijing's domestic politics shift radically in a post-Deng era. New economic challenges, however, are emerging that should make commercial dealings with the West more imperative for the Chinese—particularly for export markets, as a source of advanced technology, and for assistance in energy development. 25X1

The Chinese may need Western help more than they currently anticipate. Beijing expects that its economy will grow during the latter half of the 1980s at a rate approximating the 1952-77 average of 5.7 percent, but our calculations suggest that overall growth will have difficulty reaching 5 percent. We believe China's energy shortage will become more acute with oil production starting to decline by 1985. Moreover, the Chinese seem to be overestimating their ability to conserve energy in the future. 25X1

As these constraints become increasingly evident to Chinese economic planners over the next two to three years, it will reinforce the leadership's decision for Western companies to be deeply involved in energy development, particularly offshore oil.[1] US firms, which are world leaders in offshore drilling as well as surface mining, would be in a strong position to broaden their involvement in China. 25X1

[1] This paper proceeds on the assumption that US companies will be significant participants in a commercially viable offshore oil program. ARCO has already begun exploration in the South China Sea, and US companies are participants in all consortiums still bidding on blocks. 25X1

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Over the next decade China's economy also will become more dependent on foreign trade. The Chinese recognize that without substantial industrial and infrastructure imports, capital productivity will continue to stagnate, retarding overall development. We believe that China is counting heavily on the US market and that the US share of Chinese exports may well double over the next decade. On the import side, the Chinese will be particularly in need of transportation, electronics, mining technologies, and grain from the United States. 25X1

These economic stakes will work to reinforce moderation in Beijing's political dealings with the United States. Beijing will be increasingly sensitive to the possibility that its growing commercial equities with the United States could be jeopardized by a major imbroglio over US links with Taiwan. Specifically, we believe China will be less likely to exert heavy pressure on the United States to reduce its arms sales to Taiwan as long as these transfers avoid clear violation of the "quantity and quality" provisions of the 17 August 1982 communique. Such moderation will be particularly evident during the latter half of the 1980s, when Chinese dependence on US oil technology will peak. 25X1

Nevertheless, in our view, there will be definite limits to US economic influence. For many influential Chinese, Taiwan's divided status remains an emotional issue, symbolizing their country's continuing subservience to Western power. If the Chinese perceive an unambiguous trend toward strengthened US defense or political ties with Taipei, they may well force a general retrogression in Sino-US relations and sacrifice important elements of their economic and technological ties. In a worst case scenario, we believe the Chinese have sufficient commercial options through Western Europe, Japan, and the USSR to enable their economy to weather a major reduction in US oil-production assistance and trade. 25X1

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China–United States: Political Implications of Growing Economic Interdependence 25X1

China's Increasing Interdependence

Over the past decade China's economic interdependence with the world has reached unprecedented proportions. Foreign trade, primarily with the non-Communist world, has become more important to the country's economic growth than at any previous time in its history. In the early 1970s export earnings constituted only 3 percent of Gross Domestic Product (GDP), but within the decade this figure has more than doubled to nearly 7 percent. Western [2] technology and know-how have become key to China's development. Despite the economic retrenchment of the past three years, advanced technology imports by value now stand at more than 10 times their 1970 level. The number of officially sponsored Chinese scholars sent to study abroad have gone from a mere handful a decade ago to some 8,000. 25X1

During the past four years, Beijing has turned to foreign investment—historically a symbol of exploitation—to increase its access to both technology and capital. So far over $1 billion has been invested in China by foreign firms. Perhaps most significantly, China is poised to conclude a number of long-term joint ventures with foreign energy companies that could result in undertakings valued in the tens of billions of dollars. 25X1

The United States has played an important role in China's economic development—as a source of advanced technology, agricultural products, and foreign exchange earnings. US-Chinese trade has risen from near zero in 1971 to $5 billion in 1982. Overall, the United States now ranks second as a source of imports and third as a market for China. A substantial amount of US-origin high technology has been acquired by the Chinese over the past several years, most prominently computers and aircraft. Beijing's scientific and technological exchange program with the United States is substantially larger than that with any other country. Close to 100 Chinese delegations, mostly scientific and technological, visit the United States every month, while officially sponsored students currently studying in the United States number over 5,000.[3] 25X1

China's Commitment to Its Present Course

China's economic opening to the West is driven by political as well as developmental considerations. The long-term threat from the Soviet Union remains a compelling reason for China to have the Western democracies participate in its economic development. Domestically, China's reform-minded leadership has built much of its political power base on a repudiation of the xenophobia fostered by Cultural Revolution radicals and on promises of a genuine economic takeoff by the 1990s. 25X1

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We believe that China's economic interdependence with the West is likely to grow under Deng Xiaoping's political tutelage. Indeed, there are signs over the past year that the leadership consensus for the economic opening to the West is strengthening:

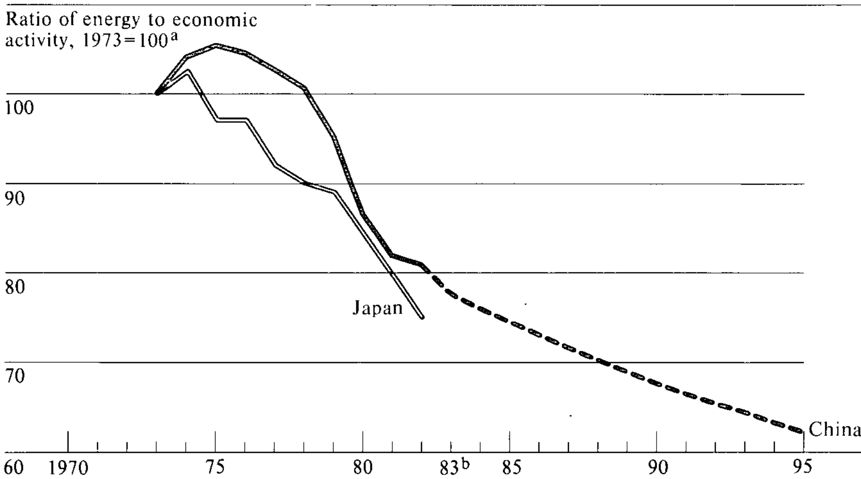
- China's recently released, long-term economic goals are predicated on a heavy infusion of foreign capital and technology.
- Media articles allegorically sniping at foreign involvement in China's modernization have diminished markedly over the past year. 25X1
- In recent months Beijing has introduced a major liberalization of its economic regulations, facilitating investment by foreigners and providing larger financial incentives. 25X1

Although these trends are encouraging, a post-Deng leadership may not be as favorably disposed toward such substantial foreign involvement. 25X1

[2] The West as used in this paper includes Japan. 25X1

[3] Another 6,000 are studying in the United States under private auspices. 25X1

Figure 1
China and Japan: Comparative Energy Savings



Rates of energy savings
Percent

	Japan	China
1974	2.5	4.1
1975	−5.4	1.2
1976	0.0	−0.8
1977	−5.2	−1.7
1978	−2.2	−2.0
1979	−1.1	−5.4
1980	−5.3	−9.1
1981	−5.5	−5.4
1982	−5.9	−1.2

[a] "Economic activity" for Japan is GNP, and for China is industrial and agricultural output.
[b] 1983-95 is projected.

[redacted] 25X1

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[redacted] some influential Chinese remain deeply troubled by what they regard as China's excessive dependence on the West and the negative cultural byproducts that have accompanied commercial ties. Deng's chosen successors, Hu Yaobang and Zhao Ziyang, will lack their mentor's broad power base and could find themselves having to make some concessions to these critics. A worst case scenario might envisage the Chinese leadership becoming increasingly xenophobic, yielding to an instinct that is a familiar part of the country's history. [redacted]

We believe, however, that the 1980s and 1990s will pose major economic challenges for China and substantially lessen the likelihood of Beijing turning inward again. A continuing problem with energy supplies—despite new production in the South China Sea—and the country's increasing need for foreign trade to help underwrite economic growth should push Beijing toward greater economic interdependence with the West. [redacted]

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China's Energy Bind—
A Force for Interdependence

China's most difficult economic problem during the next decade will be a continuing slowdown in the growth of domestic energy supplies. For several years insufficient energy output has been an important constraint on industrial production. Energy shortages will probably continue, particularly if heavy-industry growth rates continue to exceed plan targets. [redacted] 25X1

Energy output is now growing at about 4 percent per year, almost all from coal. The outlook for other fuels is bleak—natural gas production has already fallen about 20 percent below its peak in 1979, and the critical oil sector is struggling to maintain production at its current level of 2 million b/d. We expect that China will face a decline in oil output by 1985. Recent studies by the World Bank conclude that China could become a net oil importer as early as 1985. [redacted] 25X1

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Over the past five years the Chinese have begun to appreciate more fully their energy squeeze and the difficulties of boosting domestic production. They have turned increasingly to the West for technology to spur development of energy supplies, while emphasizing more stringent conservation practices at home. Since 1980 Beijing has allocated increased investment funds and designed new incentive programs to promote energy savings. We believe the Chinese are aiming at a conservation rate that averages between 3.5 and 4 percent per year over the next decade. The World Bank projects that China's long-run rate of energy conservation is, however, unlikely to exceed 2 percent annually, while a recent forecast by Wharton Econometric Forecasting Associates concludes that annual gains in energy efficiency are likely to be in the 2.5- to 3-percent range for the rest of the century.

Indeed, recent Chinese data indicate that the rate of energy savings is already slowing (see figure 1).[4] Early, relatively easy gains in efficiency wrung from China's outmoded industrial base must now be achieved through the costly acquisition of energy-efficient plants. Indeed, to sustain an average annual savings of 3 percent through the 1990s—about the rate achieved by the technologically advanced and more investment-oriented Japanese economy since 1973—would probably require more sustained purchases of capital equipment than are now planned.

Even allowing a generous 3-percent-energy-savings rate, however, the Chinese may be surprised by the constraint that energy places on economic activity during the next decade. Assuming that China is able to achieve the ambitious energy-production targets published in its media, our calculations suggest that the economy will be hard pressed to exceed a 4.4-percent average rate of agricultural and industrial increase through the mid-1990s (see figure 2, "Baseline Energy Scenario"). This rate is well short of Beijing's growth targets for the period and is considerably below the average annual growth of 5.7 percent, which China achieved between 1952 and 1977.[5]

Methodological Note

In completing these calculations, we assumed that agriculture would grow at 4 percent per year—the target for the Sixth Five-Year Plan—through 1990. This estimate is about 1 percentage point above the historical growth path for agriculture. We also assume that light industry grows at 5 percent annually through 1995, again extending the Sixth Plan target. Energy demand in the residential-commercial sector is assumed to grow 4 percent annually, reflecting the increases in real disposable income available to the Chinese. Variations of 1 percentage point up or down in these assumptions did not materially modify our results. Changes outside of this range produced imbalances in sector performance that would ultimately constrain economic growth.

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We have also constructed high and low scenarios in the event that energy output varies from the plan over the decade. In the high scenario, should the Chinese surpass the energy-production targets by 15 percent, they could add about half a percentage point to their average rate of economic growth between 1983 and 1995, bringing it up to 5 percent. In the low scenario, a substantial shortfall of 25 percent in expected energy production—brought on, for example, by a slowdown in the acquisition of hydroelectric power plants, problems in developing new coal mines, and lower production from the offshore oil program—would cut the rate of economic growth by about 1 percentage point annually over the period. This would bring it down to about 3.5 percent. To match China's historical growth rate would require a combination of high energy growth and efficiencies that we consider unlikely.

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Enhanced Role for Western Firms

As they come to recognize the full seriousness of the energy bind, the Chinese will be reinforced in their decision to have Western companies deeply involved in energy development. Beijing may rely more heavily on foreign equipment, technology, and investment to develop its coal sector, where production can be boosted within a relatively short time. An acceleration

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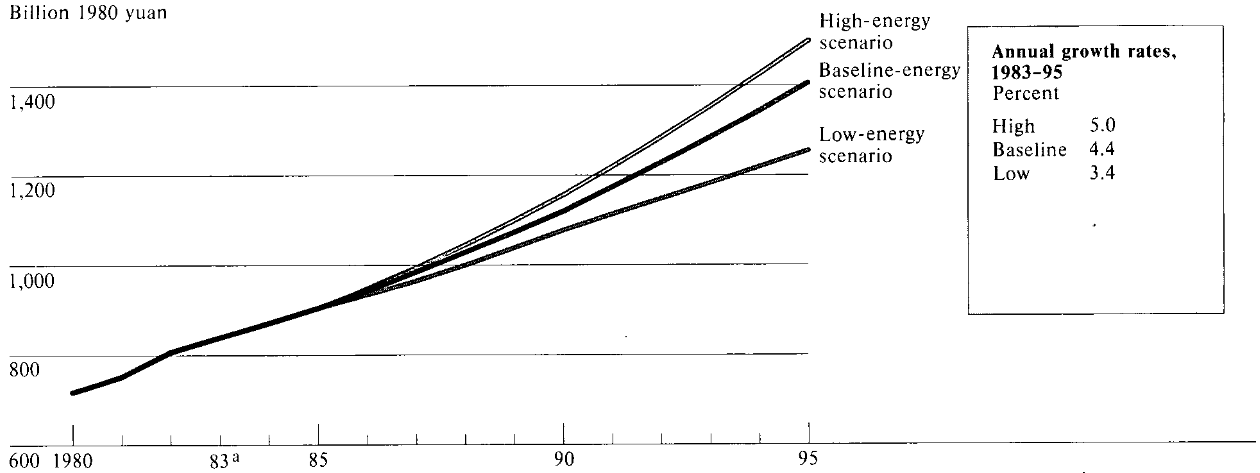
[4] This is in part a result of the upswing in the energy-intensive heavy-industry sector.
[5] Subject to hard currency requirements, China could generate more growth by eliminating oil exports and importing more oil.

Figure 2
China: Economic Performance Under Energy-Production Alternatives



[a] 1983-95 is projected.

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of the coal program would require additional large amounts of investment, which could only come from foreign partners. Increasing petroleum production would be a longer term proposition, but the Chinese may try to speed up offshore development timetables and expand the number of blocks in which foreign firms are operating. It may also launch a more ambitious program for secondary and tertiary recovery at onshore fields.

US firms, which are world leaders in the petroleum industry as well as in surface coal mining, stand to benefit most by China's urgent needs. Beijing has long been attracted to US oil firms, not only because of their strong position as a supplier of technology, but more importantly because of their unrivaled managerial and engineering experience with offshore oil projects. These assets will almost certainly win US oil majors a significant portion of the South China Sea blocks now in bidding.

Although Beijing looks very favorably on US petroleum companies, five or six major non-US companies will also play a long-term role in China's offshore programs as China seeks to diversify its dependency. British, French, and Japanese firms have already signed contracts, and Royal Dutch Shell also has sufficient technology and know-how to be highly competitive in offshore development work. Nevertheless, their management and engineering experience is more limited than that of the US companies, and the non-US companies may well encounter some technical difficulty operating in deepwater areas. Such shortcomings might be offset, however, by subcontracting specialized operations to US exploration companies or their foreign subsidiaries. 25X1

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In nonpetroleum energy projects, such as coal, gas, and nuclear and hydroelectric power, the Chinese will also retain a diversity of foreign partners. Although US firms have an advantage in surface-mining technologies and possibly nuclear power, the Europeans and Japanese are at least equal in underground mining and hydroelectricity. The Soviets are also capable of assisting the Chinese in hydroelectric development. 25X1

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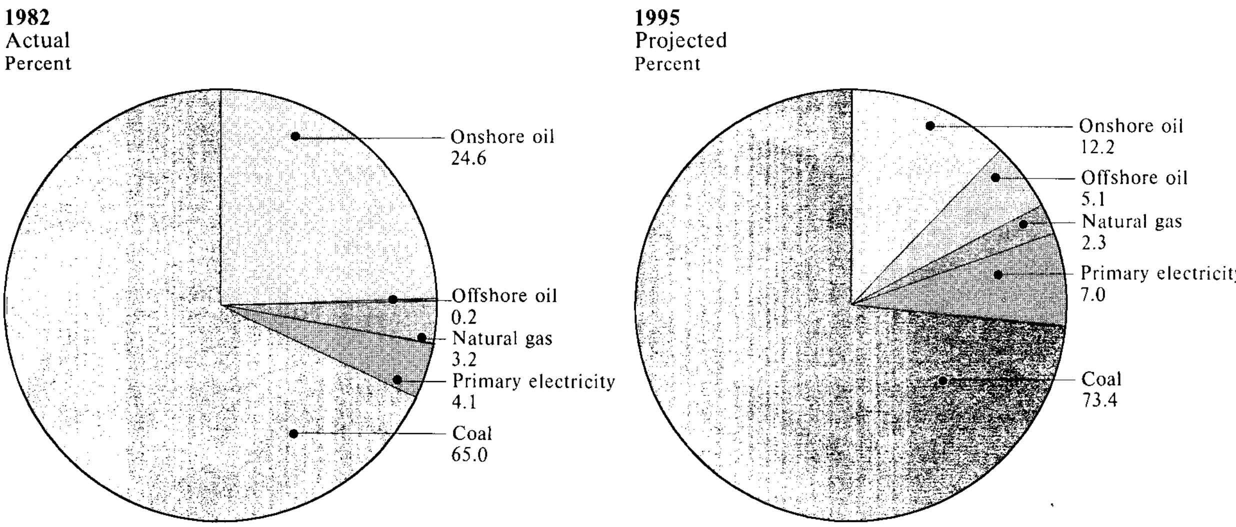
Figure 3
China: Plans for Primary Energy



Note: This figure illustrates China's plans to shift its composition of energy supply (shown in metric tons of coal equivalent) over the next 12 years. Beijing is counting heavily on offshore petroleum production to help it through its energy bind, but our calculations suggest that supplies will constrain economic growth in any case.

[redacted] 25X1

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Foreign Trade: Pressures for Expansion

Over the next decade China plans to place more emphasis on foreign trade in its efforts to increase the pace of overall growth. Authoritative Chinese officials predict that in this period trade will expand twice as fast as domestic production.[6] The Chinese recognize that expanded equipment imports from the West are key to their ability to compete with quality products in the international marketplace while conserving energy and raw materials. [redacted]

[redacted] as much as 50 to 60 percent of the country's plant is highly inefficient by Western standards. The World Bank calculates that productivity has stagnated since 1957. Its studies show that between 1957 and 1979 industrial output growth has been achieved almost entirely by increasing the quantities of labor and capital employed rather than by improving the quality of inputs or the efficiency with which they are being used. In this regard, China's performance is far worse than the 1952-57 period when capital and labor productivity rose substantially. [redacted] 25X1 25X1

China's plans call for its large-scale import program to be financed over the next decade primarily out of export earnings. Statements by Chinese officials imply that they expect exports to rise as a share of GDP from 6 percent to approximately 9 percent. Without expanded earnings, China would be forced to go into 25X1 25X1

[6] Countries with large populations and geographic size tend to have lower foreign trade ratios (exports plus imports divided by GNP) than smaller countries. Thus, China, like the United States and USSR, will never be as dependent on foreign trade as South Korea, Singapore, or the Netherlands. [redacted] 25X1

heavy debt—an option still anathema to China's leadership—or be prepared to accept a more modest import program that would retard overall economic growth. [redacted]

Increasing problems of providing employment within China, possibly of unprecedented proportions, will be an additional pressure on Beijing to expand export industries. According to Chinese demographers, the number of people reaching working age over the next decade will average more than 3 million annually in the urban areas and some 20 million per year in the countryside. It is doubtful that these new workers can be absorbed by China's virtually fixed agricultural base, and Beijing is investing more heavily in export-oriented industries to bring some relief. [redacted]

China Looks to the United States for Markets . . .
These pressures will impel China increasingly to cultivate the West, particularly the United States, as a source of export earnings. The United States now stands as China's third-largest export market, accounting for 10 percent of its total foreign exchange earnings, and China still considers the United States to have a large, relatively untapped appetite for Chinese goods. The complementarity of the US and Chinese economies suggests that China might be able to obtain as large a share of the US market as its present share of the world market, and maybe more.[7] China today accounts for 1.4 percent of world exports—nearly double its 0.8-percent share of the US market (see appendix A). We would expect stronger Chinese sales to the United States of light industrial goods, consumer electronics, machine tools, finished wood products, and textiles. [redacted]

Despite this growth, China is not likely to become heavily dependent on any particular export market. Beijing will continue to trade substantially with Japan, Hong Kong, and Western Europe. Moreover, recent trends suggest that China's trade is becoming more diversified in the direction of the Soviet Union and Eastern Europe. Declines in trade between China and the USSR and Eastern Europe over the past two decades leave much potential for Chinese sales of light industrial goods, including textiles and hardwares. Exports to the debt-ridden LDCs probably will grow the least over the next decade. [redacted] 25X1

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. . . and Technologies/Food Grains
On the import side, by 1990 US sales can be expected to be running two to three times the present level of some $3 billion per year. This is a conservative estimate, based on the assumption that China only partially achieves its trade expansion goals and that the United States simply retains its current 20-percent share of the market. Given Chinese development priorities, American equipment and technologies in the transportation, mining, electronics, and energy sectors will be highly attractive. In addition, over the long term, China probably will have to increase grain imports as it grapples with the problem of trying to feed a growing population that now exceeds 1 billion people on 100 million hectares of arable land.[8] Higher incomes in China will add to the problem by raising the demand for meat, which requires large amounts of grain to produce. We believe, however, that the United States is unlikely to retain its current 60-percent share of the Chinese market as other grain-exporting countries expand production. The United States, however, will remain the largest single supplier, providing a larger share if Chinese harvests suffer severe shortfalls. [redacted]

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Political Implications of Growing Economic Interdependence

China's foreign policy has long been a complicated brew of *realpolitik,* xenophobic nationalism, and economic calculation. In the post-1949 era these forces have vied with one another, sometimes sharply, as China struggled to chart its course in the world. Security considerations have been the primary force shaping China's post-1949 foreign policy, but there have been periods when China's need for economic ties abroad has been an influential factor. [redacted]

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[7] Beijing is well aware of the experience of a number of smaller Asian economies, which achieved their economic takeoff through exporting, largely to the United States. [redacted]

[8] In comparison, the USSR has 160 million hectares to feed 270 million people. [redacted]

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Moscow's substantial economic assistance to China during the 1950s was clearly an important stimulus for Beijing's concessions to the USSR on a number of fundamental political issues. By any accounting, the 1950 Sino-Soviet Friendship Treaty was a bad political deal for the Chinese. After two months of hard bargaining, China:

- Recognized Outer Mongolia's continued "independent status," which constituted tacit acceptance of Soviet control of territory that the Chinese believed was theirs.
- Agreed not to change the status of Dalian, which the Soviets were then occupying as a naval base.

The Soviets subsequently delayed withdrawal from Manchuria and Lushun—both of which were to be vacated on dates established in the Treaty. Later, after having urged the Chinese into the Korean conflict, Moscow reneged on promises of compensation for war expenditures. Nevertheless, as Chinese officials would later recall, China endured these affronts, in large part because they feared the loss of Soviet economic assistance.

As the 1950s unfolded, Moscow's use of its economic ties to extract political and economic gains from China took its toll, ultimately helping precipitate a total break. This bitter experience convinced the Chinese that they must avoid becoming economically reliant on any one country again. Further, it explains Beijing's efforts to spread its trade and investment relations—as seen by its opening to the West in the 1970s—over a broad range of countries.

Despite this concern, there is some evidence that, as development has become a higher priority for the Chinese leadership in recent years, economic considerations have played an increasingly influential role in China's foreign policy. Expectations of a major expansion of Sino-US economic ties seem to have been an important element in the Chinese decision to drop its precondition for a termination of US arms sales to Taiwan and to move ahead with the establishment of full diplomatic relations in 1979. During the year prior to normalization, senior American officials painted a promising picture of liberalized trade and technology flows that would follow diplomatic recognition.

The Chinese occasionally hint that there is a direct link in the leadership's thinking between their own moderation on bilateral political issues and economic gain from the United States. In a recent conversation with senior US officials, Ambassador Zhang Wenjin strongly implied that China would not push Taiwan-related matters if the United States were more generous in authorizing technology sales

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During the past year the Chinese have underscored the value they attach to the US economic relations by taking pains to insulate them, for the most part, from the political differences that have beleaguered bilateral political relations. Senior Chinese officials, including Deng, have emphasized their intention not to allow these tensions to jeopardize overall trade and investment. In fact, the Chinese recently committed themselves to two large-scale, long-term joint ventures with US firms. 25X1

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Economic Leverage and the Taiwan Issue

The importance to Beijing of continued access to US technological assistance and markets is likely to build over the next several years—reaching a high mark during the late 1980s. At that time China's energy shortage will have grown more acute, and US oil firms will be starting to move from exploration to the crucial developmental phase. The large amount of funds required for development will cause China to depend heavily on the international financial markets in which the United States plays a strong role. If Sino-US political relations were to veer off course before 1985, it would be easier for the Chinese to pull back from involvement without sustaining inordinate losses of time. After 1990, China may be better positioned to move ahead independently of US companies as it gains experience with offshore development.

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The key question is how US economic leverage will influence Beijing's treatment of bilateral political irritants, especially the US-Taiwan relationship. Although China's assessment of the United States as a strategic counterweight to the Soviets will remain paramount in shaping Beijing's policy, we believe its

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growing economic interdependence with the United States will help to moderate Beijing's reaction to what it sees as adverse developments in US-Taiwan ties. The Chinese appreciate the separation of private enterprise and government in the United States, but they almost certainly will worry that a major falling out may cause Washington to actively discourage US companies from making additional commitments for offshore operations or take steps to retard the transfer of petroleum-related technologies. Unsettled US-China relations could, in any case, cause US oil firms and bankers to be less willing to risk committing themselves to long-term projects with Beijing. Moreover, the coming decade will be a period when China's foreign trade with the United States is of greater importance to China's economy than it is now, adding pressure on Beijing to try to ensure that its exports and imports are not constrained by a serious dispute over Taiwan. [redacted]

The Chinese also will want to avoid a highly charged Sino-US political atmosphere, fearing that this could in time adversely affect trade and investment ties with Japan—a country that has traditionally followed the American lead. Japan would almost certainly be more wary of extending large concessionary loans if relations between Washington and Beijing appeared to be heading for a sharp decline. Such a turn of events could also complicate Chinese efforts to acquire advanced technology from Tokyo and cause private industry in the United States and Japan to become more wary about making long-term investments. [redacted]

We believe these new economic pressures on Beijing will help shape a more tolerant attitude toward US arms sales to Taiwan. Given the ambiguities of the 17 August 1982 communique, during the latter half of the 1980s China will have a greater incentive to take a flexible view of these sales as long as they do not clearly violate the "quantity and quality" provisions of the communique. In interpreting the "gray areas" of the agreement, the Chinese may be more receptive to US accounting of quantitative trends as well as our judgment as to what constitutes a qualitative improvement of arms. Moreover, in reacting to individual political initiatives that appear to favor Taipei, Beijing may be more predisposed toward pro forma responses and extremely cautious about boxing itself into hardline positions. [redacted]

The Limits of US Economic Influence

Even in the late 1980s, however, US economic influence in China will have definite limits. China's historical sensitivity to infringements of its sovereignty, reinforced by its negative encounter with the Soviet Union in the 1950s, has left a deep and lasting scar. Many influential Chinese, despite their ostensibly pro-Western outlook and their enthusiasm for stronger economic and technological ties with the United States, continue to harbor a deep resentment of China's humiliating partition by the West during the past century. For them, Taiwan's status symbolizes their country's continuing subservience to Western power and denies China its respect as a great nation. [redacted] 25X1

Hence, for much of the past three decades, one of Beijing's major foreign policy objectives has been the military and political isolation of the Government of 25X1
Taiwan. During the 1950s this aim lay behind two major military crises in the Taiwan Straits and since 1970 has been a central issue in every major set of political negotiations between China and the United States. China's relations with Japan, Europe, and the Third World have also been dependent on their tacit agreement not to strengthen official ties with Taiwan. In Beijing's view, the progress that has been made toward reunification has been hard won, and it would regard an unambiguous trend toward stronger US-Taiwan defense or political ties as a fundamental threat to the gains for which it has worked so long. In this situation, we believe the Chinese would be prepared to force a general retrogression in Sino-US 25X1
relations and to sacrifice some important elements of their economic and technological ties. [redacted] 25X1

Viable Commercial Alternatives to the United States

Although Beijing's economic links with the United States will be highly valued, particularly during the latter half of this decade, China would have viable commercial options if a major rupture of its commercial relations with the United States were to occur. The Chinese could proceed with their offshore oil exploration and development program by utilizing non-US companies, principally European. Once development is under way, a switch away from US firms

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would be a time-consuming and expensive undertaking that could result in China's having to cut back the scope of its offshore program. Beijing's greatest challenge would be to locate non-US companies willing to invest large amounts of capital and to pick up where the US companies left off. Much would depend on prospects at the time for oil recovery in the US blocks. [redacted] 25X1

In a seriously deteriorating political situation, China could also weather a sharp reduction in trade with the United States. The Chinese appreciate that, short of a state of war, the US Government would be unlikely to impose anything resembling a cutoff in bilateral trade. More realistically, a US administration could withdraw trade preferences, such as most-favored-nation treatment, which is extended annually to China. It could also use its discretionary authority to curtail the importation of textiles and other high-volume Chinese exports. At most, we estimate such actions would cut China's foreign exchange earnings by 5 to 10 percent—enough to significantly constrain development plans but not cripple the economy. A portion of this loss could be offset by short-term borrowing, and the Soviet Union might take up some of the slack in China's exports as a political gesture. [redacted] 25X1

The imposition of US restrictions on technology and grain exports would no doubt put a crimp in China's development program, but would not be an insuperable obstacle. In a number of industrial and military projects requiring advanced computer and electronic technology, the Chinese may well have to settle for less than state-of-the-art equipment. A cutoff of advanced technology from the United States would also inhibit China's efforts to learn how to replicate those embargoed items. On the other hand, over the next decade the Chinese will develop a much stronger capability to acquire advanced technology through illegal means, and strict enforcement of COCOM regulations is a problem that will probably become increasingly difficult. China's sources of grain will remain diversified, and, at worst, it could end up having to pay higher prices from other suppliers such as Canada, Australia, and Argentina. [redacted] 25X1

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Appendix A

China Exports: International Trade and Market Shares, 1981

	Billion US $				*Percent*			
	PRC Exports		World Exports		PRC Share of		US Share of	
	Total	US	Total	US	World Market	US Market	PRC Exports	World Exports
Total commodities	**21.59**	**2.06**	**1,521.68**	**266.44**	**1.4**	**0.8**	**9.5**	**17.5**
Industry	**18.84**	**1.77**	**1,431.31**	**258.65**	**1.3**	**0.7**	**9.4**	**18.1**
Metallurgical	0.89	0.10	111.05	22.57	0.8	0.5	11.7	20.3
Power	0.00	0.00	2.22	0.00	0.0	0.0	0.0	0.0
Coal and Coke	0.27	0.00	16.84	0.14	1.6	0.0	0.0	0.8
Petroleum	4.57	0.32	371.78	84.12	1.2	0.4	7.0	22.6
Chemical	1.28	0.15	140.34	14.34	0.9	1.1	12.1	10.3
Machine building	1.49	0.09	493.76	82.10	0.3	0.1	6.4	16.6
Building materials	0.24	0.01	16.97	1.66	1.4	0.4	2.9	9.8
Forest	0.60	0.03	31.71	4.98	1.9	0.6	5.0	15.7
Food	2.40	0.08	89.26	15.41	2.7	0.5	3.5	17.3
Textile	2.76	0.19	37.31	2.74	7.4	6.8	6.7	7.4
Clothing	2.01	0.45	31.60	8.01	6.4	5.7	22.6	25.3
Leather	0.52	0.06	17.22	4.79	3.0	1.3	11.8	27.8
Papermaking	0.86	0.12	71.24	15.36	1.2	0.8	14.0	21.6
Other	0.97	0.15	19.15	2.33	5.0	6.4	15.4	12.2
Agriculture	**2.75**	**0.29**	**90.37**	**7.79**	**3.0**	**3.7**	**10.5**	**8.6**
Livestock	0.37	0.00	4.35	0.34	8.5	0.0	0.0	7.8
Fishing	0.39	0.02	10.74	2.73	3.7	0.8	5.6	25.4
Food crops	0.46	0.00	45.53	1.88	1.0	0.2	0.9	4.1
Industrial crops	1.06	0.21	23.83	2.06	4.4	10.4	20.1	8.6
Crude byproducts	0.47	0.05	5.93	0.79	7.9	6.2	10.5	13.3

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Appendix B

China Imports: International Trade and Market Shares, 1981

	Billion US $				*Percent*			
	PRC Imports		World Imports		PRC Share of		US Share of	
	Total	US	Total	US	World Market	US Market	PRC Imports	World Imports
Total commodities	**17.84**	**3.59**	**1,521.68**	**220.90**	**1.2**	**1.6**	**20.1**	**14.5**
Industry	**13.61**	**1.66**	**1,431.31**	**188.04**	**1.0**	**0.9**	**12.2**	**13.1**
Metallurgical	1.61	0.02	111.05	8.36	1.5	0.2	1.1	7.5
Power	0.02	0.00	2.22	0.00	0.8	0.0	0.0	0.0
Coal and coke	0.10	0.00	16.84	6.01	0.6	0.0	2.9	35.7
Petroleum	0.05	0.00	371.78	4.24	0.0	0.0	0.0	1.1
Chemical	2.21	0.42	140.34	27.91	1.6	1.5	18.9	19.9
Machine building	5.43	0.29	493.76	108.18	1.1	0.3	5.3	21.9
Building materials	0.16	0.00	16.97	2.00	0.9	0.0	0.0	11.8
Forest	0.19	0.10	31.71	3.77	0.6	2.7	53.8	11.9
Food	0.75	0.02	89.26	8.35	0.8	0.3	0.0	9.4
Textiles	2.30	0.61	37.31	4.18	6.2	14.6	26.6	11.2
Clothing	0.04	0.00	31.60	1.13	0.1	0.0	0.0	3.6
Leather	0.13	0.06	17.22	0.73	0.8	8.7	47.8	4.3
Papermaking	0.51	0.13	71.24	9.50	0.7	1.4	26.5	13.3
Other	0.10	0.00	19.15	3.67	0.5	0.0	1.0	19.2
Agriculture	**4.23**	**1.93**	**90.37**	**32.86**	**4.7**	**5.9**	**45.5**	**36.4**
Livestock	0.00	0.00	4.35	0.27	0.0	0.0	0.0	6.2
Fishing	0.00	0.00	10.74	1.02	0.0	0.0	0.0	9.5
Food crops	2.39	1.33	45.53	20.36	5.2	6.5	55.8	44.7
Industrial crops	1.73	0.59	23.83	10.70	7.3	5.5	34.4	44.9
Crude byproducts	0.11	0.00	5.93	0.50	1.9	0.0	0.0	8.5

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